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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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The Recovery Slows . . .

As the economy rounds the Labor Day bend, many indicators suggest that its pulse, at long last, is slowing. Recent business statistics, including the index of leading economic indicators, nondefense capital goods orders, home construction and retail sales all point toward some tapering off in the pace of business. And, although such seasonal factors as midsummer vacations and auto model year changeovers may be dampening some of the numbers, it is increasingly apparent that the business expansion is finally shifting into lower, although by no means reverse, gear.

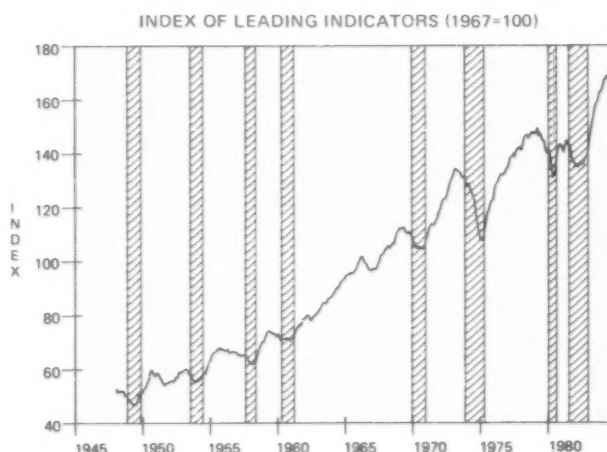
One sign of this is that the Commerce Department's index of leading economic indicators, which tends to foreshadow future business trends, fell in July for the second consecutive month. These back-to-back declines represent a sharp reversal in the behavior of this index which had been climbing for 21 months in a row until June—the longest string of monthly advances in the postwar period. What is more, the June decline—originally reported at 0.9 percent month-over-month—was revised to show a steeper, 1.3 percent drop. Nevertheless, these declines do not necessarily suggest the imminent demise of today's business expansion.

For one thing, the leading indicators have declined for two months in a row in the midst of past business expansions without signaling the near-term onset of recession, but rather foreshadowed only a subsequent slowdown in the pace of business activity. For another, the linkage between trends in this index and business cycle turning points is loose at best; in the past, declines in the leading indicators index have preceded the onset of recession by as little as three months or, at times, as much as two years (see chart).

. . . Dampened By Higher Interest Rates . . .

So, too, the tapering off in housing-related activity is contributing to the slower pace of business. This is because the sharp increases in interest rates which occurred during the first half of this year have again placed homeownership beyond the reach of an ever-growing segment of the general public. With

mortgage rates now approaching 15 percent for a fixed-rate conventional loan, the perennial pursuit of the American dream remains just that for many would-be homebuyers. Sales of new single-family homes flattened out in July and now stand some 17 percent below the peak reached last December—leaving builders with about a 6½ month supply of unsold new homes, one of the highest inventory levels in almost two years. Nor have sales of existing single-family homes fared any better. They have fallen nonstop since May, and currently stand at their lowest level since last autumn.



Not surprisingly, single-family home construction declined ten percent in July, the third monthly drop in a row. Running at an annual rate of 982,000 units in July, the number of single-family housing starts is now more than six percent below year-ago levels. At the same time, building permits, an indication of future housing activity, fell almost 12 percent month-over-month.

The effect of higher mortgage rates on home sales would have been even more drastic had it not been for the growing popularity, not to mention availability, of adjustable rate mortgages. These mortgages, which now account for about two of every three new mortgages originated, enable



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homebuyers to borrow at rates initially several percentage points below those on conventional mortgages, and usually have a lower—or even no—origination fees.

Until recently, the pace of multi-family housing construction has responded more slowly to interest rate hikes. This is because builders of apartment and condominium projects secured their financing months earlier—when mortgage rates were lower. During the first half of 1984, strong multi-family construction more than offset the dip in single-family housing starts. In April, for example, multi-family housing construction reached the highest level in nearly 11 years. However, high interest rates are beginning to take a toll even on

this segment of the housing market and, in July, both starts and building permits for apartments and condominiums declined sharply.

... Although Plenty of Life Remains

On the other hand, the impact of higher interest rates on business capital outlays, so far an important prop under today's business expansion, has been muted. Although orders for nondefense capital goods declined in both June and July, they still remain some 23 percent higher than a year ago. So, too, spending on new plant, which has lagged far behind spending on new equipment, is now picking up. As a result, the pace of plant and equipment spending is now running well above the average of past postwar recoveries, responding to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/29/84	Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	157.826	- 1.046	+ 4.156
Loans to Depository Inst.	8.356	+ .421	+ 6.644
Float	.090	- .181	- .674
Total Reserve Bank Credit	174.355	- .554	+10.656
Treasury Deposits with			
Federal Reserve Banks	3.615	+ .267	+ .315
Currency in Circulation	175.496	- .649	+13.327
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.930	+ 1.221	+ 9.947
Member Bank Reserves:	8/29/84		
Total Reserves Held	36.253	- .743	+ 1.370
Excess (Deficiency)	.698	.021	+ .205
Net Free Reserves	.062	+ .424	+ .566
Monetary Aggregates †		% Change Since	
		Three Months Ago*	Year Ago
M1 (8/20/84)	547.9	+ 4.3‡	+ 5.5‡
M2 (July '84)	2,281.2	+ 6.8	+ 7.3
M3 (July '84)	2,858.8	+ 9.9	+ 9.8
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 8/31/84			
‡ U.S. Treasury Bills	10.20%	10.40%	10.50%
* Federal Agencies	10.89	11.57	12.14
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.57	12.13
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.49	11.76	12.10
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	11.30%	Oct.	11.40%
15- 29 days	11.30	Nov.	11.40
30- 59 days	11.30	Dec.	11.40
60- 89 days	11.15	Jan.	11.40
90-179 days	10.98	Feb.	11.40
180-239 days	10.80	Mar.	11.40
240-270 days	10.80		
‡ Industrial Paper—Prime		† Federal Funds Effective Rate	11.60%
30- 89 days	11.25%		
90-120 days	11.25		
‡ Discount basis.		* Subject to availability.	† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	\$ 3,648 r	\$ 3,553
Gross National Product (1972 Dollars)*	2nd Q'84	\$ 1,641 r	\$ 1,611
Percent Change, Annual Rate	2nd Q'84	7.6 r	10.1
Change in Consumer Prices (new series)*	Jul '84n	3.6%	2.4%
Change in Producer Prices*	Jul '84	3.6%	0.0%
Civilian Employment (Thousands of Persons)†	Jul '84	105,395	105,748
Unemployment as % of Civilian Labor Force†	Jul '84	7.5%	7.1%
Personal Income*	Jul '84	\$ 3,027	\$ 3,003
Leading Indicators Composite Index (1967=100)†	Jul '84n	165.3	166.6 r
Industrial Production Index (1967=100) †	Jul '84	165.6	164.1
Net Change in Consumer Installment Credit †	Jun '84	\$ 7.83	\$ 10.23
U.S. Merchandise Trade Balance †	Jul '84n	-\$ 14.06	-\$ 8.91
Plant and Equipment Expenditures*	3rd Q'84	\$314.52 (a)	\$303.79 (a)
Private Housing Starts (Thousands of Units)*	Jul '84	1,761	1,886
New Construction Expenditures*	Jun '84	\$ 310.6	\$ 311.3
Total Business Inventories †	Jun '84	\$ 546.1	\$ 545.9
Total Business Sales †	Jun '84	\$ 413.6	\$ 412.7

*Seasonally adjusted annual rate.

†Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

strong business cash flow growth, tax incentives included in the Economic Recovery Tax Act of 1981 and the need to introduce new technology in order to compete with imports.

Already, the investment in new and more efficient equipment is paying off. The Labor Department reported that nonfarm productivity went up 4.7 percent at a seasonally adjusted annual rate in the second quarter—the biggest increase in a year. The improvement stretched the current string of productivity gains to eight consecutive quarters—the longest period of uninterrupted growth in 11 years.

But that's not all. Many other business statistics still suggest that there is plenty of life left in this

economic expansion. Good-sized gains in industrial production, capacity utilization rates and personal incomes all indicate continued business strength. So, too, does the state of consumer finances. For despite a two-year spending spree and a record surge in consumer borrowings this year, such key ratios of household financial health as consumer installment debt to disposable income and total debt to financial assets are still comfortably below the peak levels reached in late 1979 and early 1980. What is more, while high interest rates may be bad news for homebuyers, they do provide a hefty reward to savers. Interest income has already added nearly \$40 billion to consumer buying power since January—a development which will provide a lift to consumer spending in the months ahead.

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Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of \$100,000 or more			
Weekly Reporting Banks			
Nationwide (8/15/84)	158,086	+ 761	+10,370
New York City (8/22/84)	35,217	- 826	+ 2,209
Commercial Paper (8/22/84)	220,622	+ 1,175	+47,693

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
	Latest Week	Change Since	
		Week Ago	Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (8/15/84)	244,335	- 591	+28,751
New York City (8/22/84)	64,094	- 136	+ 5,510
Total Loans and Leases Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/15/84)	620,015	+ 4,694	+91,356
New York City (8/22/84)	137,106	- 2,619	+18,454

Financial Markets

	Friday 8/31/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	11.05%	+ .18	+ 1.40
180-Day Billst	11.47	+ .15	+ 1.37
Longest Billst	11.89	+ .14	+ 1.39
Recent Issues:			
12 ³ /8s 8/31/86	12.52	+ .06	
13 ⁵ /8s 6/30/88	12.74	+ .17	
12 ⁵ /8s 8/15/94	12.79	+ .12	
12 ¹ /2s 8/15/14	12.51	+ .07	
Municipals:			
Bond Buyer—20 Bond Index* (8/30/84)	10.17%	+ .15	+ .42
Blue List Total (\$ Million)	\$1,670	+ \$ 74	+ \$ 527
30-Day Visible Supply (\$ Million)	\$3,429	+ \$280	+ \$1,051
Total	\$5,099	+ \$354	+ \$1,578
Corporates:			
Moody's Aa Composite (8/30/84)	13.46%	+ .01	+ .68
30-Day Visible Supply (\$ Million)	\$ 500	- \$ 27	- \$ 10
Stocks:			
Dow-Jones Averages:			
Industrials	1,224.38	- 12.15	+ 8.93
Transportation	520.51	- .11	- 38.43
Utilities	129.46	- .26	- .65
65 Stocks	473.99	- 2.98	- 8.12
Standard and Poor's 500 Stocks	166.68	- .83	+ 1.68
N.Y.S.E. Composite Index	95.86	- .38	+ .58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	69,494	-24,988	+ 3,126

International Rates

	Friday 8/31/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.56%	11.25%
1 month	11.75	11.56
3 month	11.88	11.81
6 month	12.19	12.06
1 year	12.63	12.36
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.55%	12.65%
Long Term (7 to 15 yrs.)	12.55	12.65
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(8/31/84)	Equivalent	Per U.S. \$
Belgium	.01718	58.22
Canada	.7703	1.2982
Denmark	.09511	10.5140
France	.1128	8.8625
Germany	.3464	2.8870
Italy	.0005582	1791.50
Japan	.004137	241.70
Mexico	.005102	196.00
Netherlands	.3069	3.2580
Switzerland	.4157	2.4055
U.K.	1.3108	.7629

* 46% Taxable equivalent 18.83%.

† Bond equivalent.



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... you'll find a host of innovative financing, marketing and servicing capabilities to fit today's ever-changing real estate marketplace. As one of the nation's largest mortgage bankers, our products include residential mortgage and construction financing as well as construction and permanent financing for commercial projects.

MHMC marketing capabilities allow us to tailor commitments to the specific needs of both institutional and capital investors, whether it is the sale of residential loans in the secondary market or passthroughs of our mortgage backed securities.

Our mortgage servicing portfolio, now over \$9 billion, continues to grow through mortgage originations and the acquisition of servicing from other lenders.

With 25 residential and 3 commercial loan offices across the country, MHMC has the capability to meet the needs of our customers on a national basis. Though rapid growth has propelled us to a leadership role in our industry, our game plan remains basic: to meet the real estate financing needs of our customers and investors.

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